

**State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION**

Regular Meeting September 28, 2005

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, September 28, 2005. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Ms. Marcia Reback, Mr. James E. Thorsen, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. William Bensur of Wilshire Associates Incorporated, Consultant to the Commission, Jayne Donegan, Esq., Legal Counsel to the Commission, and other members of the Treasurer's Staff. Dr. Robert J. McKenna was absent.

State Investment Commission Minutes. Ms Gallogly moved, Mr. Costello seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To approve the Minutes of the August 24, 2005 regular meeting.

Mr. Costello moved, Ms. Reback seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, Mr. Treat, and Treasurer Tavares.

VOTED: Pursuant to R.I.G.L. § 42-46-5(2) and R.I.G.L. § 42-46-5(7) the Commission votes to close the meeting to the public to discuss the litigation regarding the Gateway Eight mortgage; and to discuss the investment of public funds regarding the Gateway Eight mortgage.

The Commission went into Executive Session at 9:07 a.m.

Open Session. Ms. Reback moved, Mr. Thorsen seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, Mr. Treat, and Treasurer Tavares.

VOTED: To reconvene the meeting into Open Session.

The Commission reconvened into Open Session at 9:40 a.m. There were no votes taken while the Commission was in Executive Session.

Mr. Thorsen moved, Ms. Reback seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, Mr. Treat, and Treasurer Tavares.

VOTED: To seal the Minutes of the Executive Session held today, September 28, 2005.

Investment Manager Review - Goldman Sachs (“Goldman”). Mr. Bensur of Wilshire Associates Incorporated (“Wilshire”) gave a brief overview noting that Goldman was retained in 2004 to provide a long-term, strategic allocation to the non-US equity market. Market value at 6/30/05 was \$516.9 million representing 33.9% of the non-US equity composite and 7.75% of the total fund. Net of fees, the portfolio was up 2.10% year-to-date (versus the benchmark 0.32%).

Mr. Michael Ray, Client Service Manager, Mr. Len Ioffe, Portfolio Manager and Mr. Yoel Lax, Portfolio Manager represented Goldman. Mr. Ioffe noted that the portfolio has assets of \$549 million as of 8/31/05. He also noted that there are 207 positions in the portfolio which is below the number dictated by the guidelines. While this variance is currently acceptable to the Commission, Treasurer Tavares requested that in the future Goldman should inform Ms. Caine of any variances from the guidelines, and whether such deviations are temporary or if modifications to the guidelines should be considered.

Mr. Lax noted that the top contributors in the developed country equities were Austria, Norway and Belgium. The bottom contributors were Canada, UK and Australia. In the emerging markets equities the top contributors were Brazil, Korea and Columbia. The bottom contributors in the emerging markets equities were South Africa, Russia and Mexico. The top contributors in the developed currencies were the Japanese yen, Norwegian krone and the New Zealand dollar. The bottom contributors were the UK pound sterling, Swiss franc and the Canadian dollar.

Mr. Lax noted that there are 26 countries in the emerging markets and the portfolio is slightly overweighted in Brazil and Korea and slightly underweighted in Mexico, China and Malaysia. The largest sector exposure is to financials, followed by energy, consumer discretionary, industrials, and health care.

Note: Mr. Treat left the meeting at 10:00 a.m.

Investment Manager Review - Pacific Investment Management Company (“PIMCO”). Mr. Bensur gave a brief overview noting that PIMCO was retained in 2000 to provide a strategic allocation to the domestic equity market in the form of an enhanced index portfolio. Market value at 6/30/05 was \$450.1 million representing 14.9% of the US equity composite and 6.7% of the total fund. Performance, net of fees, for one year was 6.60% - outperforming the benchmark by 30 basis points.

Mr. Thomas J. Otterbein, Executive Vice President and Ms. Melody Rollins, Vice President represented PIMCO. Mr. Otterbein noted that equity indexes have been flat to slightly negative and that portfolio diversification helped offset the negative impact of rising US short-term rates. Ms. Rollins stated that as short-term rates increased, longer rates fell due to subdued inflation and strong demand. She noted that front-end duration exposure and a strategy designed to benefit from curve steepening detracted from returns. European rates fell amid expectations of slower growth which resulted in enhanced returns and provided the StocksPLUS portfolio with important diversification.

Ms. Rollins reported that the broad market mortgage yield spreads increased and that holdings of select lower coupon issues added value. TIPS underperformed as inflation expectations fell and detracted from performance. PIMCO expects to retain positions in mortgages and corporates and look to add value through emerging markets by owning issues with attractive yields and solid credit fundamentals.

Proposed investment in Wellspring Capital Partners IV, L.P. (“Wellspring”). Ms. Michelle Davidson of Pacific Corporate Group gave a brief overview of Wellspring noting that the fund is being formed to make value-oriented, control equity investments between \$25 million to \$150 million in middle market special situations and restructurings with enterprise values ranging from \$100 million to \$500 million, principally in North America. The target fund size is \$750 million with a cap of \$1 billion.

Mr. William Dawson, Partner in Wellspring Capital Partners (“WCP”), represented Wellspring. Mr. Dawson noted that WCP was founded in 1995 and has had a consistent focus on value-oriented, control middle-market investments. He noted that realized investments have returned a gross IRR of 50% and that unrealized investments have returned a gross IRR of 34%. Wellspring will target undermanaged or underperforming companies with strong core franchises and solid fundamentals. Wellspring will focus on basic industries such as consumer products, business and consumer services, manufacturing, retail and distribution.

Mr. Dawson also noted that Wellspring avoids industries such as technology/internet, real estate, media and telecom. Wellspring creates value through their deal sourcing, due diligence/structuring and hands-on involvement post-investment. Wellspring Fund II returned 37.9% and Fund III returned 23.5% through 7-15-05.

Mr. Thorsen moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, and Treasurer Tavares. (Note: Mr. Treat was not present for this vote.)

VOTED: To invest up to \$20 million in Wellspring Capital Partners IV, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Wilshire Associates Incorporated - Capital Market Review. Mr. Bensur noted that presently the US equity market is not offering significant returns. Small and mid cap stocks continue to outperform large stocks. He stated that Non-US equities have outperformed US equities consistently over the last 4-5 years. Emerging markets continue their outperformance. The S&P 500 is up approximately 1.5% on a year-to-date basis. Small stocks are up 3-4% and fixed income is up 2%. The total portfolio is up approximately 5.5% for the calendar year-to-date.

Deputy Treasurer for Finance Report. Ms. Caine reported that the audited numbers for the fiscal year showed the fund up 11.8%. She noted that the only public funds that reported higher returns were those with long-term real estate exposure. REITs were very high performers. She also noted that with regard to private equity, ERSRI is foregoing several re-up opportunities with four existing relationships in order to comply with allocation guidelines. Ms. Caine noted that Shenkman Capital is struggling but is up 2.2% year-to-date and their benchmark is 2.7%. She stated that Shenkman is being watched closely.

Ms. Caine formally welcomed Vincent Izzo to the Treasury team as he was promoted to replace George Crepeau. She noted that the scope of the position was broadened in order to cover the cash management and debt management areas as well as the pension fund. These changes will facilitate cross-training and succession planning.

Ms. Reback moved, Mr. Costello seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Thorsen, and Treasurer Tavares. (Note: Mr. Treat was not present for this vote.)

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:05 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer